

**2006 Budget Presentation  
Mayor Bart Peterson  
August 8, 2005**

Good evening! It's an honor to be with you on this historic day for Indianapolis and Marion County! This year, for the first time, the budgets for the city and the county have been put together by the city's Office of Finance and Management.

We are moving toward eliminating the distinction between city and county budgets. This, together with the additional control over municipal corporation budgets that the City-County Council has been given, and the authorization to merge the Indianapolis Police Department and the Marion County Sheriff's policing functions, means we are much closer to the dream of smaller, smarter, simplified, unified government here in our state's capital. The beneficiaries will be our taxpayers, who will get better service for less money.

We will now bring the same kind of fiscal discipline to the county side of the budget as we have brought to the city's budget.

The problems of the past were not due to a lack of capability by our current and previous county auditors, but to a system that gave the auditor responsibility without authority, and gave county agencies authority without responsibility. The new state law consolidates the budgeting and financing roles for all of city and county government, promotes accountability, and promotes better budget planning for the future. The buck now stops here!

This change comes none too soon. The county budget is in deep trouble. I will detail our plan for rescuing it tonight, but make no mistake, until Indianapolis Works passes, the county budget will be on life support.

We are entering a new era, so please forgive me if I slide back and forth between talking about the combined city/county budget and talking about the city budget versus the county budget. In some cases I will refer to them separately to help with apples to apples comparisons. I hope it will not be long before people forget that there were once two completely separate budgets in the city and county that created Unigov.

I am proud of the way this budget was put together in very trying times. First, we are using the new county option income tax money to fund all the Tier 1 priorities identified by the Criminal Justice Planning Council for fixing our broken criminal justice system. What does this mean in plain English? It means we are taking a huge step toward ending the early release of dangerous criminals onto the streets of Indianapolis because of jail overcrowding. We are funding more prosecutors, more resources for the criminal courts, and more equipment and people for the crime lab to move those arrested through the system faster.

The accused need to be judged quickly and moved to state prison to serve their time. The innocent need to be sent home. Our jail cannot continue to be a long-term human warehouse – a monument to gross inefficiency. You deserve the credit for this because of your courageous bipartisan votes earlier this year.

The specific steps to end jail overcrowding were developed by a bipartisan group led by our county clerk, Doris Anne Sadler. Ms. Sadler and her committee deserve our gratitude for checking politics

and parochialism at the door and looking for real solutions to a problem that has bedeviled us for years. Now our job is to fund these solutions and end the horrendous practice of releasing dangerous criminals who belong behind bars!

Second, there will be no cuts in public safety funding beyond those I announced in June. While other county agencies are being asked to make sacrifices similar to those made by city agencies, the Sheriff, prosecutor, criminal courts and other components of the criminal justice system are not. We have been and will continue, searching for efficiencies and other cost-cutting steps in our criminal justice agencies, but we cannot increase funding for measures to end jail overcrowding with the right hand and cut the base funding for the very same agencies with the left. With a county budget in such deep trouble, this requires some aggressive steps, which I will outline shortly.

Third, we are continuing the course of strong fiscal discipline in city spending. For 2006, the city budget totals \$533.9 million or \$8.6 million less than the city's 2005 budget. This decrease factors in a

\$12% increase in city employee health insurance costs and increases in many other contractual obligations. And, for the sixth straight year, there is no increase in property taxes to fund the city budget!

Finally, the budget I offer this evening begins solving the problems of tomorrow even as we grapple with the substantial challenges of today. We just learned that our county option income tax receipts will probably be at least \$8.5 million higher than previously projected. The city's share, just under 60% of the total, will be applied to paying down the pension obligation bonds used to fund this year's budget. Borrowing money to pay current pension obligations to our retired police officers and firefighters was a distasteful last resort for the 2005 budget. The sooner we can pay off those bonds the better. [Need to warn the FOP about this; need an understanding and an explanation about the budgeting of no raises for them for 2006.]

To fully understand this year's budget proposal, a little history is required. Unigov united all the major components of city and county government except for police and fire services. As things have

evolved, funding the city's police and fire departments and dealing with their unfunded pension liabilities have proven to be the biggest challenges in local government. For at least twenty years, mayors and councils have tried every creative idea they could think of to keep the city's head above water without huge tax increases.

In recent years, the county's budget situation has been deteriorating. A growing Marion County required more services. The Sheriff's responsibilities increased dramatically as population shifted to the outer townships. Added burdens were placed on the courts, the jail, the prosecutor, probation and other partners in the criminal justice system. And costs imposed by the state, such as juvenile incarceration charges and child welfare expenses, over which you - the county's fiscal body - had absolutely no control - exploded.

In 2001, we received a major boost from the state when the legislature passed a new pension relief bill. As a result of that temporary reprieve, the city – which was by no means comfortable, but in less of a state of crisis than the county – was in a position to help fund the county's budget. Since 2001, the city has provided \$56

million of direct support to the county's budgets! That's why the county was able to make it to February 2005 without any general tax increases.

But all the while, both the city and county saw their financial health decline. From 2002 to 2005, COIT distributions to the city and county decreased from \$121.6 to \$104.7 million in 2005. The cumulative loss in COIT was more than \$32 million over the period. AV growth has been stagnant at 1%, leaving us unable to keep up with inflationary cost for fixed contracts, fuel and health insurance which has been rising at double-digit levels. To protect our dwindling city savings account, I ordered significant cuts in spending. We cut \$55 million out of the city's budget in 2003 and 2004, before I even proposed Indianapolis Works. City workers without contracts received no raises in 2003 or 2004. I, and the top twenty leaders in my administration, took pay cuts in 2003 that have continued to today. As evidence of our frugality, the city government's share of the local property tax bill declined from 30% in 1999 to 26.8% in 2005.

It was in this environment that I proposed Indianapolis Works last August. Without too much rehashing, let me just note that Indianapolis Works would reduce the overall cost of local government by \$35.7 million per year. The portions of it that passed the legislature allow us to reap something less than \$10 million in annual savings, and that not as rapidly as if the police merger had passed as I proposed. The failure of the legislature to pass the lion's share of Indianapolis Works is why I announced another \$28 million in city budget cuts and the elimination of nearly 200 jobs by attrition in June – the most painful cuts so far.

The city's portion of the budget I propose tonight was largely explained at the time the budget cuts were announced. We will be able to make it through the rest of 2005 and to the end of 2006 with a modest balance – very modest – left in our savings account. It means a third year of no raises for those city employees not covered by contracts, but again we will pick up 100% of the increased cost of their health insurance premiums, so no employee should lose money.



I said in June that I would explain tonight how we would raise \$2.5 million in additional public safety-related revenues. This is the plan. We will be increasing the fees we charge for responding to false automated fire and burglar alarms, trash fires, hazardous materials spills, and for providing accident reports. Additionally, we will begin charging for IFD responses to accident scenes. The Office of Corporation Council will work with IPD and IFD to collect these fees. Finally, the city is stepping up its parking ticket enforcement efforts by increasing the base fee, doubling the fee if it is late and streamlining the collections process. The expected revenue generated by these efforts is expected to be at least \$2.5 million annually.

The strict fiscal discipline we have brought to the city budget for six years now can be applied to the county budget as well. We start tonight, but we have more work to do this year and next. In spite of tireless work and being quick studies, Bob Clifford and his team have only been working with the budgets of all the entities that make up the county budget for a few weeks. While some cuts could be tailored, in most cases, the Office of Finance and Management simply gave

agencies, other than those involved with criminal justice, a percentage cut and will allow them to decide how to make it work.

Not cutting the agencies that comprise the criminal justice system means that the overall budget cuts on the county side are relatively small, because the biggest county agencies are the public safety and criminal justice agencies. Again, the reason for this approach is that we want the new criminal justice revenues to be used to end the early release of dangerous criminals, not to fill in for baseline agency funding that was cut.

Figuring out how to make this work was a Herculean task. The county was already underfunded for 2005, the current fiscal year, by over \$15 million when we started, and it was looking at a \$33 million deficit for 2006. We were faced with requests from County Agencies that were \$33 million higher than the amounts appropriated in 2005. Most of these requests were for real operating expenses such as fuel for Sheriff vehicles, managing an election in 2006, inmate medical care, criminal court costs and other critical recurring expenses. By utilizing the new COIT and growth in our COIT, cutting administrative

budgets, and by borrowing a portion of the 2007 COIT increase, we were able to piece together a budget that works through 2006 without a property tax increase.

The new borrowing is really a cash flow measure, more akin to the property tax anticipation notes our bond bank regularly issues than to the pension obligation bonds approved last year. The reason is that there is a source of new revenue coming on line to pay off the debt, much like the tax warrant program we have.

If all this sounds as though we remain in a precarious financial situation, we do. That is why we need Indianapolis Works. The \$21 million in savings each year from the fire merger alone would make a big difference in funding local government. To those who say Indianapolis Works won't solve all our financial challenges for all time, I would ask, What would? Indianapolis Works is just one – but a powerful one – of the tools necessary to build a more solid fiscal foundation for our city and county. And even if we have problems in the future, with Indianapolis Works we'll always be \$35.7 million per year better off.

I cannot conclude without mentioning the dark cloud that hangs over our heads and the heads of all mayors and city council members across our state. No matter how brilliantly we, together, manage the difficult situation we find ourselves in today, all our efforts could well be rendered useless by several recent actions of the state legislature. Everyone in this room remembers what happened to local homeowners and other property taxpayers after the court ordered reassessment in 2003. Taxpayers across Marion County and across the entire state were hit with massive property tax increases due to a court-ordered change in the way property is assessed. Sadly, it seems that the state has not learned from past disasters.

There are a series of state actions that pass the cost of state government down to homeowners and taxpayers here in Indianapolis. Some of them have been long-standing, so-called traditions, and some were passed just this year as a part of the latest state budget. Regardless, these actions pass the cost down to us. The troubling part is that elected officials on the local level can do little or nothing about it. Let me give you a few examples.

The state budget that was just passed cuts the long-standing state support for property taxpayers through the property tax replacement credit. Even if local governments do not raise rates, property taxes will increase by about \$2.6 million a year in 2006 and 2007. If assessed value increases, property taxes will increase even more.

Second, the state budget breaks the bi-partisan tax restructuring promise - that we relied upon - made by the legislature three years ago. In the landmark tax restructuring plan of 2002, the state told local governments that if we phased out the inventory tax, the state would help keep property taxes low with the property tax replacement credit and an increase in the state sales tax. Well, we decided to phase out inventory tax based on this promise to help keep property taxes low. Now, they are eliminating this funding, keeping the state sales tax and leaving local governments with no inventory tax revenue and no way to replace it. This is leaving big holes in budgets across Indiana.

Third, the state budget cuts schools funding and makes property taxpayers make up the difference. Before, 60 percent of school funding was paid by the property tax replacement credit and only 40 percent by property taxes. With the freezing of property tax replacement credit by the state, any future improvements to schools will be funded 100 percent with property taxes.

Fourth, the state requires us to charge Marion County property taxpayers for juvenile detention, even though it's the state's responsibility. In every other instance in the state correctional system, the state legislature is charged with paying for the incarceration costs for convicted offenders. In the case of juveniles, the state passes this cost to local property taxpayers, which now stands at \$60 million. We believe this is wrong and have asked the courts to make this determination once and for all.

Finally, the state requires local property taxpayers for children's welfare, even though it's the state government's responsibility. They have asked for an additional \$15 million for 2005 and \$30 million more for 2006. Again, the local officials elected by Indianapolis and

Marion County have no control or oversight of their spending. At a time when we are asking every department of local government to be more efficient, tighten its belt, and cuts costs, it is unfair for bureaucrats on the state level to wipe away this conservative fiscal responsibility with the stroke of a pen. And, this is not just the case here in Marion County. [Add examples from other cities.]

The bottom line is that unless the state legislature makes significant changes in the way it does business, property taxes in Marion County will go up, and there's nothing we can do about it. But I pledge to you I will try. This fall and through the next session of the General Assembly, I will work with other mayors and local officials across the state to convince the Governor and state lawmakers to join us in the battle for property taxpayers. We'll ask them to take a hard look at the system that passes the costs of state government to local taxpayers, and also to give local governments the tools and the flexibility they need to be efficient, cost-effective and accountable to the citizens that elect them. The taxpayers of the state deserve nothing less.

[This year is different and let me explain why. The city's 2005 annual budget totaled \$542.5 million, and that was a \$2.8 million increase over the 2004 budget. As I announced in June, we have cut nearly \$30 million from the remaining 2005 budget and these cuts are in effect for 2006 as well. Of those 189 positions, 78 are sworn police officer positions, which would be cut through attrition over two years, and 44 are sworn firefighter positions, which would be cut through attrition in 2006. Layoffs are not necessary, since the city froze many positions, canceled an Indianapolis Police Department recruit class and made other cuts since January 1, 2005. But, more layoffs are to come if we do not merge the Marion County Sheriff's Department and Indianapolis Police Department. I would like to thank the members of the City-County Council for their undertaking of this consolidation. Each of you have made this a priority, and you understand how important it is that we not have to layoff additional police officers.]

[Earlier this year, we announced the raise of COIT to help fix the criminal justice system. The 2005 County budget left us with many holes to fill. The County General tax levy came in \$5 million lower than was budgeted by this Council. Property tax delinquencies



and appeals drove this figure even lower. In addition, critical items went unfunded in the County's 2005 budget. The unfunded items included such things as fuel for the Sheriff's vehicles, medical expenses for care of inmates in the County jail, health care benefits for the retired Sheriff deputies, rent for the jail, criminal court operating costs and funding for the public defender and prosecutor. All of these expenses required funding in 2006. We found the projected growth in revenues from normal economic growth and the one-tenth of a percent COIT increase are not enough to make up for the 2005 shortfalls and provide funding to eliminate jail overcrowding. Accordingly, we cut the budgets of administrative offices for 2005 and 2006, shifted additional COIT receipts from the City to the County General fund, and still, we were short. We were faced with two options. We could either cut spending recommended by the Criminal Justice Planning Council to alleviate jail overcrowding or we could borrow against the 2007 COIT increase. To avoid cuts in public safety on the county side, I am asking tonight that we use a portion of the second year's COIT right away. In the past, we have had to come up with creative ways and sometimes not so popular ways to

cover budget shortfalls, but financing half of the 2007 COIT now is a sensible way to fix a timing issue.]